

Message Text

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47

ACTION OPIC-06

INFO OCT-01 NEA-10 ISO-00 EB-07 AID-05 XMB-02 TRSE-00

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 9778

LIMITED OFFICIAL USE NEW DELHI 9075

PASS OPIC

E.O. 11652: N/A

SUBJ: EAST INDIA HOTELS - 386-E-209

REF: A. NEW DELHI 3305

B. STATE 58281

AFTER EXTENDED DISCUSSIONS WITH SUBJECT BORROWER,
MISSION RECOMMENDS MODIFYING THE CONDITIONS FOR RESCHEDULING,
AS APPROVED IN REF B, AS FOLLOWS:

A. MODIFY CONDITION A OF PARA 5 OF REF A WHEREBY PUBLIC
DEPOSITS OF BORROWER WILL NOT EXCEED RS.173.3 MILLION AS
OF 3/31/76. (FYI-THIS IS THE BALANCE OF PUBLIC DEPOSITS AS
OF 3/31/75.) BEGINNING APRIL 1, 1976 AND SEMI-ANNUALLY THERE-
AFTER, BORROWER WILL SUBMIT A PROJECTION OF PUBLIC DEPOSIT
SITUATION AND NO INCREASE WILL BE PERMITTED WITHOUT USAID'S
PRIOR WRITTEN APPROVAL. MISSION RECOGNIZES THAT THE SIX
MONTHS FROM 4/1/75 THRU 9/30/75 REPRESENT BORROWER'S SLOW SEASON
AND BORROWER WILL HAVE TO RESORT TO OBTAINING ADDITIONAL PUBLIC
DEPOSITS TO COVER FIXED COSTS DURING THIS PERIOD. DURING BUSY
SEASON FROM 10/1/75 THRU 3/31/76, BORROWER WILL REDUCE PUBLIC
DEPOSITS TO A MAXIMUM BALANCE OF RS.173.3 MILLION AND LOWER
IF POSSIBLE. (FYI-USAID IS PRESENTLY MEETING WITH BORROWER
MONTHLY TO KEEP CLOSE TABS ON CURRENT FINANCIAL SITUATION.)

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B. CONDITION B OF PARA 5 REF A UNCHANGED. FYI WE PROPOSE

APPROVE 6 CURRENT CAPITAL IMPROVEMENT PROJECTS AT THE BOMBAY-SHERATON HAVING AN ESTIMATED COST OF RS.2.0 MILLION AND 3 CURRENT PROJECTS AT THE GRAND IN CALCUTTA HAVING AN ESTIMATED COST OF RS.2.5 MILLION. THESE PROJECTS EITHER WERE IN PROCESS PRIOR TO NEGOTIATIONS ON RESCHEDULING OR WE CONSIDER THEM SUFFICIENTLY IMPORTANT TO THE BORROWER'S OPERATION TO APPROVE THEM. END FYI.

C. ADD NEW CONDITION AS FOLLOWS: FUNDS GENERATED FROM THE SALE OF STOCK (EITHER FOR NEW ISSUES OF COMMON OR PREFERRED STOCK OR OUTSTANDING SUBSCRIPTIONS) WILL BE USED ONLY
(1) TO REDUCE OUTSTANDING BALANCE OF PUBLIC DEPOSITS, OR
(2) TO REDUCE THE REMAINING BALANCES AS YET UNPAID TO THE CONTRACTORS ON THE BOMBAY-SHERATON HOTEL.

D. MODIFY RESTRICTION ON DIVIDENDS (INCLUDED IN REF B) BY REQUIRING BORROWER UNDERTAKING THAT WILL NOT, DURING THE PERIOD OF DEFERMENT (I.E. TO OCTOBER 6, 1976) PAY DIVIDEND ON EQUITY SHARE CAPITAL, EXCEPT WHERE BORROWER OBTAINS AID PRIOR APPROVAL IN WRITING ON BASIS THAT SUCH A DECLARATION OF DIVIDEND WOULD FACILITATE THE INCREASE OF BORROWER'S PAID UP SHARE CAPITAL. WE RECOMMEND AGAINST REF B CONDITION SINCE IT WOULD AMOUNT TO EFFECTIVE PROHIBITION ON EIH PAYING DIVIDEND ON PREFERENCE SHARES. WE BELIEVE PROHIBITION ON DIVIDENDS WOULD BE UNDESIRABLE FOR FOLLOWING REASONS: (A) UNDER SECTION 7.8(D)(I) OF THE LOAN AGREEMENT EIH CANNOT PAY ANY DIVIDENDS IF THERE EXISTS "EVENT OF DEFAULT"; (B) DIVIDEND ON PREFERENCE SHARES MAY BE NECESSARY TO ATTRACT ADDITIONAL CAPITAL AND (C) SUCH DIVIDENDS WOULD NOT LIKELY EXCEED RS.1.0 MILLION PER YEAR WHICH WOULD NOT MAKE OR BREAK EIH. (FYI-THE OBEROI FAMILY PRESENTLY OWNS 140 SHARES OF PREFERRED STOCK OUT OF 167,105 SHARES ISSUED AND OUTSTANDING.)
SAXBE

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